



## **CORBY SPIRIT AND WINE LIMITED**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2017 AND 2016

Q3



# **CORBY SPIRIT AND WINE LIMITED**

## **Management's Discussion and Analysis**

### **March 31, 2017**

---

The following Management's Discussion and Analysis ("MD&A") dated May 10, 2017, should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes as at and for the three and nine-month periods ended March 31, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS"). These interim condensed financial statements were not audited or reviewed by the Company's external auditors in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited interim condensed financial statements by an entity's auditor. These unaudited interim condensed consolidated financial statements do not contain all disclosures required by IFRS for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended June 30, 2016.

This MD&A contains forward-looking statements, including statements concerning possible or assumed future results of operations of Corby Spirit and Wine Limited ("Corby" or the "Company"), including the statements made under the headings "Strategies and Outlook", "Liquidity and Capital Resources", "Recent Accounting Pronouncements" and "Risks and Risk Management." Forward-looking statements typically are preceded by, followed by or include the words "believes", "expects", "anticipates", "estimates", "intends", "plans" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks and uncertainties, including, but not limited to: the impact of competition; the impact, and successful integration of, acquisitions; business interruption; trademark infringement; consumer confidence and spending preferences; regulatory changes; general economic conditions; and the Company's ability to attract and retain qualified employees. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These factors are not intended to represent a complete list of the factors that could affect the Company and other factors could also affect Corby's results. For more information, please see the "Risk and Risk Management" section of this MD&A.

This document has been reviewed by the Audit Committee of Corby's Board of Directors and contains certain information that is current as of May 10, 2017. Events occurring after that date could render the information contained herein inaccurate or misleading in a material respect. Corby will provide updates to material forward-looking statements, including in subsequent news releases and its interim management's discussion and analyses filed with regulatory authorities as required under applicable law. Additional information regarding Corby, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Unless otherwise indicated, all comparisons of results for the third quarter of fiscal 2017 (three months ended March 31, 2017) are against results for the third quarter of fiscal 2016 (three months ended March 31, 2016). All dollar amounts are in Canadian dollars unless otherwise stated.

#### **Business Overview**

Corby is a leading Canadian marketer of spirits and importer of wines. Corby's national leadership is sustained by a diverse brand portfolio that allows the Company to drive profitable organic growth with strong, consistent cash flows. Corby is a publicly traded company, with its shares listed on the Toronto Stock Exchange under the symbols "CSW.A" (Voting Class A Common Shares) and "CSW.B" (Non-Voting Class B Common Shares). Corby's Voting Class A Common Shares are majority-owned by Hiram Walker & Sons Limited ("HWSL") (a private company) located in Windsor, Ontario. HWSL is a wholly-owned subsidiary of international spirits and wine company Pernod Ricard S.A. ("PR") (a French public limited company), which is headquartered in Paris, France. Therefore, throughout the remainder of this MD&A, Corby refers to HWSL as its parent, and to PR as its ultimate parent. Affiliated companies are those that are also subsidiaries of PR.

The Company derives its revenues from the sale of its owned-brands ("Case Goods"), as well as earning commission income from the representation of selected non-owned brands in Canada ("Commissions"). The

Company also supplements these primary sources of revenue with other ancillary activities incidental to its core business, such as logistics fees and from time to time bulk whisky sales to rebalance its maturation inventories. Revenue from Corby's owned-brands predominantly consists of sales made to each of the provincial liquor boards ("LBs") in Canada, and also includes sales to international markets.

Corby's portfolio of owned-brands includes some of the most renowned brands in Canada, including J.P. Wiser's® Canadian whisky, Lamb's® rum, Polar Ice® vodka and McGuinness® liqueurs. Through its affiliation with PR, Corby also represents leading international brands such as ABSOLUT® vodka, Chivas Regal®, The Glenlivet® and Ballantine's® Scotch whiskies, Jameson® Irish whiskey, Beefeater® gin, Malibu® rum, Kahlúa® liqueur, Mumm® champagne, and Jacob's Creek®, Wyndham Estate®, Stoneleigh®, Campo Viejo®, Graffigna® and Kenwood® wines. In addition to representing PR's brands in Canada, Corby also provides representation for certain selected, unrelated third-party brands ("Agency brands") when they fit within the Company's strategic direction and, thus, complement Corby's existing brand portfolio. On September 30, 2016, Corby acquired Ungava® Premium Canadian gin, Chic Choc® Spiced rum, and a range of maple-based products (collectively, the "Ungava Spirits Brands")

PR produces the majority of Corby's owned-brands at HWSL's production facility in Windsor, Ontario. Under an administrative services agreement, Corby manages PR's business interests in Canada, including HWSL's production facility. The agreements reflecting these arrangements were scheduled to expire September 29, 2016. On November 11, 2015, the parties entered into new agreements (a distillate supply agreement, a co-pack agreement and an administrative services agreement) each for a ten-year term commencing September 30, 2016, thus extending these arrangements to September 30, 2026.

Corby sources more than 90% of its spirits production requirements from HWSL at its production facility in Windsor, Ontario. As of October 1, 2016, following the acquisition of the Ungava Spirits brands, certain of Corby's brands are produced at the facility operated by its new wholly-owned subsidiary, Ungava Spirits Co. Ltd. ("Ungava Spirits"), located in Cowansville, Quebec. The Company's remaining production requirements have been outsourced to various third party vendors including a third-party manufacturer in the United Kingdom ("UK"). The UK site blends and bottles Lamb's products destined for sale in countries located outside the Americas.

In most provinces, Corby's route to market in Canada entails shipping its products to government-controlled LBs. The LBs then sell directly, or control the sale of, beverage alcohol products to end consumers. Exceptions to this model include Alberta, where the retail sector is privatized. In this province, Corby ships products to a bonded warehouse that is managed by a government-appointed service provider who is responsible for warehousing and distribution into the retail channel. Other provinces have aspects of both government-control and private retailing, including British Columbia, Saskatchewan and Quebec.

Corby's shipment patterns to the LBs will not always exactly match short-term consumer purchase patterns. However, given the importance of monitoring consumer consumption trends over the long term, the Company stays abreast of consumer purchase patterns in Canada through its member affiliation with the Association of Canadian Distillers ("ACD"), which tabulates and disseminates consumer purchase information it receives from the LBs to its industry members. Corby refers to this data throughout this MD&A as "retail sales", which are measured in volume (measured in nine-litre case equivalents). In the past, the Company was able to also provide retail value information (measured in Canadian dollars). However, retail value information has no longer been provided due to the province of British Columbia changing its value data from retail dollars to wholesale dollars. This change in methodology distorts comparability against prior periods and with other provincial LB customers. The Company expects to be able to re-introduce this retail level of analysis starting with the fourth quarter of the current fiscal year.

In addition to efforts to open new international markets, Corby's international business is concentrated in the United States ("US") and UK and the Company has a different route-to-market for each. For the US market, Corby manufactures the majority of its products in Canada and ships to its US distributor, Pernod Ricard USA, LLC ("PR USA"), an affiliated company. See the "Related Party Transactions" section of this MD&A for additional details. The market in the US operates a three-tier distribution system which often requires a much longer and larger inventory pipeline than in other markets, resulting in a disconnect between quarterly shipment performance, as reported in the financial statements, and the true underlying performance of the brands at retail level during the same quarter.

For the UK market in fiscal 2016, Corby utilized a third party contract bottler and distribution company for the production and distribution of Lamb's rum. These arrangements terminated on June 30, 2016. Effective July 1, 2016, Corby entered into a distribution agreement with a related party. More information has been provided in the "Related Party Transactions" section of this MD&A. In addition, a new co-packing agreement, effective as of July 1, 2016, with a new third party manufacturer was finalized with Angus Dundee Distillers PLC.

Corby's operations are subject to seasonal fluctuations: sales are typically strong in the first and second quarters, while third-quarter sales usually decline after the end of the retail holiday season. Fourth-quarter sales typically increase again with the onset of warmer weather as consumers tend to increase their purchasing levels during the summer season.

## **Strategies and Outlook**

Corby's business strategies are designed to maximize sustainable long-term value growth, and thus deliver solid profit while continuing to produce strong and consistent cash flows from operating activities. The Company's portfolio of owned and represented brands provides an excellent platform from which to achieve its current and long-term objectives.

Management believes that having a focused brand prioritization strategy will permit Corby to capture market share in the segments and markets that are expected to deliver the most growth in value over the long-term. Therefore, the Company's strategy is to focus its investments on, and leverage the long-term growth potential of, its key brands. As a result, Corby will continue to invest behind those brands to promote its premium offerings where it makes the most sense and drives the most value for Corby shareholders.

Brand prioritization requires an evaluation of each brand's potential to deliver upon this strategy, and facilitates Corby's marketing and sales teams' focus and resource allocation. Over the long-term, management believes that effective execution of this strategy will result in value creation for Corby shareholders.

Pursuing new growth opportunities outside of Canada is also a key strategic priority. Our primary goal is to leverage our Canadian whisky expertise and expand our business into markets where we believe there is growth potential in both volume and margin.

Of primary importance to the successful implementation of our brand strategies is an effective route-to-market strategy. Corby is committed to investing in its trade marketing expertise and ensuring that its commercial resources are specialized to meet the differing needs of its customers and the selling channels they inhabit. In all areas of the business, management believes setting clear strategies, optimizing organization structure and increasing efficiencies is key to Corby's overall success.

In addition, management is convinced that innovation is essential to seizing new profit and growth opportunities. Successful innovation can be delivered through a structured and efficient process as well as consistent investment in consumer insight and research and development. Corby benefits from having access to leading-edge practices at PR's North American hub, which is located in Windsor, Ontario, where most of its products are manufactured.

Finally, the Company is a strong advocate of social responsibility, especially with respect to its sales and promotional activities. Corby will continue to promote the responsible consumption of its products in its activities. As an example, Corby has an agreement in place to continue its successful partnership with the Toronto Transit Commission to provide free transit on New Year's Eve until 2019.

## **Significant Event**

### ***Extension of US Distribution Agreement***

On March 29, 2017, the Company entered into an amending agreement with Pernod Ricard USA, LLC ("PR USA"), an affiliated company, to extend the term of the existing distribution agreement between the parties to June 30, 2018. The amended agreement will be effective as of July 1, 2017, continuing PR USA's exclusive rights to represent certain of the Company's brands, including its J.P. Wiser's, Lot No. 40 and Pike Creek

Canadian whiskies and Polar Ice vodka in the US. Since the agreement with PR USA is a related party transaction between Corby and PR USA, the agreement was approved by the Independent Committee of the Board of Directors of Corby following review, in accordance with Corby's related party transaction policy.

**Acquisition of the spirits assets of Quebec-based Domaines Pinnacle Inc.**

On September 30, 2016, Corby acquired the spirits assets of Domaines Pinnacle Inc. ("Domaines Pinnacle") for a purchase price of \$12 million which was funded from the Company's existing cash deposits. The transaction included the Ungava Spirits Brands (Ungava® Premium Canadian gin, Chic Choc® Spiced rum, and a range of maple-based products) as well as the related working capital and production assets located in Cowansville, Quebec. The brand portfolio and other assets acquired are operated by Ungava Spirits, a wholly-owned subsidiary of Corby based in Cowansville, Quebec.

Since the completion of the transaction on September 30, 2016, the Ungava Spirits Brands have contributed \$4.3 million to revenues and -\$0.1 million to net earnings. These results are impacted by seasonal fluctuations in sales and phasing of advertising and promotional efforts. It is currently anticipated that Ungava Spirits, with its recently acquired Ungava Spirits Brands, will be operating on a break-even earnings basis during its first full year of operations. More information regarding the transaction has been provided in Note 4 of the interim condensed consolidated financial statements for the three and nine-month periods ended March 31, 2017.

**Brand Performance Review**

Corby's portfolio of owned brands accounts for approximately 80% of the Company's total annual revenue. Included in this portfolio are its key brands: J.P. Wiser's Canadian whisky, Lamb's rum, Polar Ice vodka and Corby's mixable brands. The sales performance of these key brands significantly impacts Corby's net earnings. Therefore, understanding each key brand is essential to understanding the Company's overall performance.

**Shipment Volume and Shipment Value Performance**

The following table summarizes the performance of Corby's owned-brands (i.e., Case Goods) in terms of both shipment volume (as measured by shipments to customers in equivalent nine-litre cases) and shipment value (as measured by the change in net sales revenue). The table includes results for sales in both Canada and international markets. Specifically, the J.P. Wiser's, Lamb's, Polar Ice and the Ungava Spirits Brands are also sold to international markets, particularly in the US and UK.

<b>BRAND PERFORMANCE CHART - INCLUDES BOTH CANADIAN AND INTERNATIONAL SHIPMENTS</b>								
	<i>Three months ended</i>				<i>Nine months ended</i>			
	<i>Mar 31</i>	<i>Mar 31</i>	<i>Shipment Change</i>		<i>Mar 31</i>	<i>Mar 31</i>	<i>Shipment Change</i>	
			<i>Volume</i>	<i>Value</i>			<i>Volume</i>	<i>Value</i>
<i>(Volumes in 000's of 9L cases)</i>	<b>2017</b>	2016	%	%	<b>2017</b>	2016	%	%
<b>Brand</b>								
J.P. Wiser's Canadian whisky	159	160	(1%)	(13%)	592	603	(2%)	(3%)
Lamb's rum	83	84	(1%)	(5%)	338	356	(5%)	(11%)
Polar Ice vodka	81	80	2%	0%	274	274	(0%)	(2%)
Mixable liqueurs	27	29	(6%)	(14%)	122	125	(2%)	(4%)
Ungava Spirits Brands <sup>1</sup>	22	-	N/A	N/A	47	-	N/A	N/A
Other Corby-owned brands	48	49	(3%)	7%	157	162	(3%)	(1%)
<b>Total Corby brands</b>	<b>420</b>	402	4%	2%	<b>1,530</b>	1,520	1%	1%

(1) Comparative information has not been provided for Ungava Spirits Brands, as these brands were not owned by Corby prior to September 30, 2016.

For the three months ended March 31, 2017, shipment volume and value were higher when compared with the same period last year, driven by the performance of the Ungava Spirits Brands. For the nine months ended March 31, 2017 shipment volumes and value were higher compared to the same period last year, mostly due to

the performance of Ungava Spirits Brands which helped to balance the decline in the performance of Lamb's rum, which continued to be significantly impacted by difficult economic conditions in regional strongholds.

Trends in Canada differ significantly from international markets as highlighted in the following table:

<i>(Volumes in 000's of 9L cases)</i>	<i>Three Months Ended</i>				<i>Nine Months Ended</i>			
	<i>Mar 31</i>	<i>Mar 31</i>	<i>Shipment Change</i>		<i>Mar 31</i>	<i>Mar 31</i>	<i>Shipment Change</i>	
			<i>Volume</i>	<i>Value</i>			<i>Volume</i>	<i>Value</i>
	<b>2017</b>	2016	%	%	<b>2017</b>	2016	%	%
Domestic	<b>380</b>	351	8%	6%	<b>1,383</b>	1,368	1%	3%
International	<b>40</b>	51	(22%)	(28%)	<b>146</b>	152	(4%)	(19%)
<b>Total Corby brands</b>	<b>420</b>	402	4%	2%	<b>1,530</b>	1,520	1%	1%

For the three months ended March 31, 2017, Corby's domestic shipment volume and value were higher on a year over year comparative basis mostly due to the positive performance of the Ungava Spirits Brands, Lamb's rum and Polar Ice vodka.

For the nine months ended March 31, 2017, Corby's domestic shipment volume was 1% higher on a year over year comparative basis as the performance of Ungava Spirits Brands mitigated the year-to-date declines experienced by Lamb's rum. For the same nine-month period, Corby's domestic shipment value was 3% higher due to the higher priced Ungava Spirits Brands.

In international markets, lower shipment volumes in the three months ended March 31, 2017 were largely attributable to the change in shipment patterns as Corby transitioned to a new UK distributor early in fiscal 2017 for our Lamb's rum international business. On a nine-month comparative basis, shipment volumes of Lamb's rum remain favourable in the UK market. Value trailed volume for both the three and nine months ended March 31, 2017 as the Company's underlying pricing model with the new UK distributor has changed so that advertising and promotional spend is now included in the selling price.

For the nine months ended March 31, 2017, the decline in international shipments was largely attributable to a change in strategy for our Canadian whisky portfolio in the US. It was decided last fiscal year to change our US strategy as the expected consumer demand did not materialize and these products struggled against long-established brands in an increasingly price competitive segment. Corby addressed this by reprioritizing its focus on a smaller number of markets in the US and on the more premium and differentiated craft range (Lot No. 40 and Pike Creek), both of which have achieved a small but growing base of business. As a result of this change, the Company is lapping large pipeline fill volume activity in the comparative periods.

### **Retail Sales Volume Performance**

It is of critical importance to understand the performance of Corby's brands at the retail level in Canada. Analysis of performance at the retail level provides insight with regards to consumers' current purchase patterns and trends. Retail sales volume data, as provided by the ACD, is set out in the following table and is discussed throughout this MD&A. Note that retail sales value information has not been provided. Starting in July 2015, the province of British Columbia began to provide wholesale pricing data only, thus significantly impacting any meaningful comparison against prior periods and with other LB customers. The Company expects to be able to re-introduce this retail level of analysis starting with the fourth quarter of this fiscal year. Retail sales for the Ungava Spirits Brands, acquired on September 30, 2016, are included in the table below for all periods presented.

It should be noted that the retail information presented does not include international retail sales of Corby-owned brands. While Corby's focus on the US business is increasing, retail data in the US is prepared using limited sampling techniques, which does not provide meaningful trend analysis on a brand that has not yet reached sufficient scale to make such disclosure meaningful. Corby will provide such data as and when it is considered to offer meaningful analysis of brand performance.

## RETAIL SALES FOR THE CANADIAN MARKET ONLY (AS PROVIDED BY THE ACD<sup>1</sup>)

(Volumes in 000's of 9L cases)	Three Months Ended			Nine Months Ended		
	Mar 31 2017	Mar 31 2016	% Retail	Mar 31 2017	Mar 31 2016	% Retail
			Volume Growth			Volume Growth
<b>Brand</b>						
J.P. Wiser's Canadian whisky	157	152	3%	566	561	1%
Lamb's rum	72	73	(1%)	268	288	(7%)
Polar Ice vodka	78	76	2%	267	267	(1%)
Mixable liqueurs	29	30	(2%)	127	129	(2%)
Ungava Spirits brands	15	10	52%	52	38	39%
Other Corby-owned brands	44	45	(1%)	147	150	(2%)
<b>Total</b>	<b>394</b>	<b>384</b>	<b>3%</b>	<b>1,426</b>	<b>1,434</b>	<b>(1%)</b>

<sup>(1)</sup> Refers to sales at the retail store level in Canada, as provided by the Association of Canadian Distillers.

The Canadian spirits industry posted positive retail sales volume growth of 1% for both the three and nine months ended March 31, 2017. These trends were supported by double digit retail sales volume growth in the Irish whiskey category and single digit sales volume growth in bourbon, cognac and tequila categories which are categories in which Corby does not have owned-brands.

As illustrated above, the performance of Corby's portfolio of owned brands exceeded the spirits industry trends for the three months ended March 31, 2017 and helped reduce the gap in performance for the nine months ended March 31, 2017. The following brand discussion provides a more detailed analysis of the performance of each of Corby's key brands relative to its respective industry category.

### Summary of Corby's Key Brands

#### J.P. Wiser's Canadian Whisky

J.P. Wiser's Canadian whisky, one of the top selling whisky families in Canada, is Corby's flagship brand. The brand's retail volumes for the three months ended March 31, 2017 grew 3% when compared to the same period last year. Retail sales volumes for the Canadian whisky category declined 1% when compared to the same quarter last year.

The brand's retail volumes for the nine months ended March 31, 2017 were essentially flat and in line with the Canadian whisky category when compared to the same nine-month period last year. The category is lapping prior year successful innovation at premium price points. Aggressive competitive retail activity in the economy segment remains as competitors focus on maintaining share within a challenging economic environment.

Within the range, positive growth posted by J.P. Wiser's Deluxe was undercut by J.P. Wiser's Special Blend and the flavoured range, which was impacted by a significant increase of competitive retail activity in the economy and flavoured segments of Canadian whisky.

During fiscal 2017, Corby launched two innovative new variants of the J.P. Wiser's family, J.P. Wiser's Apple, our newest flavour extension, and J.P. Wiser's Union 52, a super-premium limited edition. The J.P. Wiser's brand was supported by a high profile television campaign using the "J.P. Wiser's, Tastes Like Whisky, Since 1857" commercial that significantly focused on sports broadcasts.

J.P. Wiser's variants continue to receive accolades including J.P. Wiser's Double Still Rye which was awarded *Best Canadian Whisky* at the World Whiskies Awards for 2017.

### **Lamb's Rum**

Lamb's rum, one of the top-selling rum families in Canada, was significantly impacted by unfavourable consumer trends and declining economic conditions in regional strongholds. Retail volumes for the overall rum category declined 1% for both the three and nine-month periods ended March 31, 2017 when compared to the same three and nine month periods last year.

For the three-month and nine-month periods ended March 31, 2017, Lamb's declined 1% (in line with category trends) and 7% respectively in retail volume when compared to the same periods last year. The Lamb's rum product line is heavily weighted in the dark and white segments and has faced difficult economic conditions and increased competitor pressure in regional strongholds. Our strategy remains to defend these regional strongholds with new targeted campaigns, to focus on the most differentiated variants, and to launch new flavour variants such as Lamb's Spiced Cherry rum (launched in the third quarter of this fiscal).

### **Polar Ice Vodka**

Polar Ice vodka is among the top selling vodka brands in Canada. Retail volume increased 2% for the three-month period ended March 31, 2017. For the nine months ended March 31, 2017, retail volume declined 1% when compared to the same period last year primarily due to deteriorating economic conditions and aggressive competitive retail activity.

The overall vodka category in Canada grew 1% in retail volumes when compared to the same three and nine month periods last year, with positive performance driven by the premium segment of the category.

The focus of advertising and promotion investment continues to be on driving overall brand awareness and trial of the more premium Polar Ice 90 North with innovative value added promotions, tastings and loyalty rewards programs. During the quarter, we launched a limited edition "Bearless" bottle, in partnership with Polar Bears International, to increase attention to melting sea ice and the plight of polar bears. This initiative was supported through online and social media channels.

### **Mixable Liqueurs**

Corby's portfolio of mixable liqueur brands consists of McGuinness liqueurs (which is Canada's largest mixable liqueur brand family) and Meaghers liqueurs. Retail volume for Corby's mixable liqueurs portfolio lagged category trends with retail volume declining 2% for the three and nine month periods ended March 31, 2017 when compared to the same periods last year.

The liqueurs category was essentially flat and grew 1% for the three and nine month periods ended March 31, 2017, respectively, when compared to the same periods last year driven by new innovations and cream based offerings with which McGuinness does not directly compete.

Our current strategy is to expand innovation and focus on strong programming in the retail environment, ensuring that our flavour offering is aligned to consumer trends. Two new flavours, McGuinness Simple Syrup and McGuinness Apple Whisky were launched in the fourth quarter of 2016, followed by McGuinness Butterscotch at the end of September. This quarter, we expanded a range of flavour offerings in a 375mL format to encourage consumer trial.

### **Ungava Spirits Brands**

Retail volume for the Ungava Spirits Brands increased 52% and 39% respectively for the three and nine months ended March 31, 2017, when compared to the same periods last year. The flagship brand, Ungava Gin, grew 58% and 43% respectively for the three and nine-month period ended March 31, 2017, outperforming the Canadian gin category which grew 6% for the same three and nine month periods. Cabot Trail maple-based liqueurs (in Quebec Coureur des Bois) has performed well since its packaging upgrade (retail volumes were +64% and +43% on the three and nine months, respectively).

### **Other Corby-Owned Brands**

Innovation remains an important pillar for delivering new profit and growth opportunities to the Corby domestic business. Relatively new premium offerings in Canadian whisky such as Pike Creek®, Lot No. 40® and Gooderham & Worts® collectively grew retail volume 10% and 75% for the respective three and nine month periods ending March 31, 2017, outperforming the Canadian whisky category in Canada, which declined 1% in the three-month period and remained relatively flat for the nine-month period.

Lot No. 40 and Gooderham & Worts were both awarded *Canadian Connoisseur Whisky of the Year* at the seventh annual Canadian Whisky Awards for 2017. This is the third time Lot No. 40 has received a top honour in the last four years. Lot No. 40 was also named *Best Canadian Rye Whisky* at the 2016 San Francisco World Spirits Competition. Gooderham & Worts was also awarded *World's Best Canadian Blended* at the World Whiskies Awards for 2017.

Royal Reserve® retail volume declined 1% and 4% respectively for the three and nine month periods ended March 31, 2017 when compared to the same periods last year due to challenging economic conditions in Alberta and a significant increase in competitive retail activity in the economy segment of Canadian whisky.

## Financial and Operating Results

The following table presents a summary of certain selected consolidated financial information of the Company for the three and nine-month periods ended March 31, 2017 and 2016.

<i>(in millions of Canadian dollars, except per share amounts)</i>	<i>Three Months Ended</i>				<i>Nine Months Ended</i>			
	<i>Mar 31 2017</i>	<i>Mar 31 2016</i>	<i>\$ Change</i>	<i>% Change</i>	<i>Mar 31 2017</i>	<i>Mar 31 2016</i>	<i>\$ Change</i>	<i>% Change</i>
<b>Revenue</b>	<b>\$ 28.8</b>	\$ 28.0	\$ 0.7	3%	<b>\$ 103.7</b>	\$ 102.8	\$ 0.9	1%
Cost of sales	<b>(11.2)</b>	(10.0)	(1.2)	12%	<b>(38.1)</b>	(37.2)	(0.9)	2%
Marketing, sales and administration	<b>(12.9)</b>	(12.8)	(0.1)	1%	<b>(42.3)</b>	(43.5)	1.3	(3%)
Other income (expense)	-	(0.2)	0.2	(100%)	-	(0.2)	0.2	(100%)
<b>Earnings from operations</b>	<b>4.6</b>	5.0	(0.4)	(8%)	<b>23.3</b>	21.9	1.5	7%
Financial income	<b>0.2</b>	0.3	(0.0)	(14%)	<b>0.7</b>	0.9	(0.1)	(16%)
Financial expenses	<b>(0.2)</b>	(0.3)	0.1	0%	<b>(0.8)</b>	(0.7)	(0.1)	(8%)
Net financial income	<b>0.0</b>	0.0	(0.1)	(526%)	<b>(0.1)</b>	0.1	(0.2)	(147%)
Earnings before income taxes	<b>4.6</b>	5.1	(0.5)	(9%)	<b>23.3</b>	22.0	1.3	6%
Income taxes	<b>(1.2)</b>	(1.4)	0.1	(10%)	<b>(6.3)</b>	(5.9)	(0.4)	7%
<b>Net earnings</b>	<b>\$ 3.3</b>	\$ 3.7	\$ (0.3)	(9%)	<b>\$ 17.0</b>	\$ 16.1	\$ 0.9	5%
Per common share								
- Basic net earnings	<b>\$ 0.12</b>	\$ 0.13	\$ (0.01)	(8%)	<b>\$ 0.60</b>	\$ 0.57	\$ 0.03	5%
- Diluted net earnings	<b>\$ 0.12</b>	\$ 0.13	\$ (0.01)	(8%)	<b>\$ 0.60</b>	\$ 0.57	\$ 0.03	5%

### Overall Financial Results

Net earnings for the three months ending March 31, 2017 decreased \$0.3 million or 9% when compared to the same three-month period last year. The quarter over quarter decrease is largely attributable to lower margins realized on international case good shipments and adjustments to inventory provisions for innovations impacting cost of goods sold. The impacts of such decrease were partially offset by reduced advertising and promotional spend in the US market and increased commissions.

On a year-to-date basis, net earnings increased \$0.9 million or 5% and when compared to the same period last year. The increase was mostly due to the reduction in advertising and promotional investment in the US, given the Company's change in strategy with respect to Canadian whisky in that market (as previously mentioned in the "Brand Performance Review" section of this MD&A). An increase in commissions, also contributed to the growth in net earnings.

## Revenue

The following highlights the key components of the Company's revenue streams:

<i>(in millions of Canadian dollars)</i>	<i>Three Months Ended</i>				<i>Nine Months Ended</i>			
	<i>Mar 31</i>	<i>Mar 31</i>	<i>\$</i>	<i>%</i>	<i>Mar 31</i>	<i>Mar 31</i>	<i>\$</i>	<i>%</i>
	<b>2017</b>	2016	<i>Change</i>	<i>Change</i>	<b>2017</b>	2016	<i>Change</i>	<i>Change</i>
<b>Revenue streams:</b>								
Case goods sales	<b>23.1</b>	22.6	0.5	2%	<b>83.1</b>	82.5	0.7	1%
Commissions	<b>5.1</b>	4.6	0.5	12%	<b>18.3</b>	17.1	1.2	7%
Other services	<b>0.6</b>	0.9	(0.3)	(34%)	<b>2.2</b>	3.2	(1.0)	(32%)
<b>Revenue</b>	<b>\$ 28.8</b>	\$ 28.0	\$ 0.7	3%	<b>\$ 103.7</b>	\$ 102.8	\$ 0.9	1%

Case goods revenue increased by \$0.5 million and \$0.7 million, respectively, for the three and nine-month periods ended March 31, 2017, when compared to the same three and nine-month periods last year. The growth is primarily attributable to the performance of the Ungava Spirits Brands acquired on September 30, 2016, which have offset declines in international case good shipments in both periods. As previously discussed, changes to Corby's strategy in the US market have impacted case good sales during the current year.

Commissions increased by \$0.5 million, or 12%, and \$1.2 million, or 7%, respectively, for the three and nine-month periods ended March 31, 2017 when compared to the same periods last year. The growth was attributable to an increase in commissions from the PR brand portfolio. The PR brand portfolio continues to benefit from its positioning within the premium spirit and wine categories.

Other services represent ancillary revenue incidental to Corby's core business activities, such as logistical fees and from time to time bulk whisky sales. The reduced revenue for both the three and nine-month periods ended March 31, 2017 was mostly attributable to an underlying modification to the logistical activities Corby performs. While these modifications impact revenue, net earnings remain virtually unchanged, whereas the Company no longer bears the economic risks associated with these activities.

### Cost of sales

Cost of sales increased by \$1.2 million, or 12%, for the three-month period ended March 31, 2017 when compared to the same period last year. Overall gross margin on case goods was 52% this quarter, compared to 57% the same period last year. The current year quarter is impacted by adjustments to provisions for slow moving inventory, and changes to our distributor co-pack model in the UK.

Cost of sales increased \$0.9, or 2%, for the nine-month period ended March 31, 2017, when compared to the same period last year. Overall gross margin was 55%, compared to 56% in the prior year period. The current year-to-date period was impacted by factors noted earlier.

### Marketing, sales and administration

Marketing, sales and administration expenses increased by 1% for the three-month period ended March 31, 2017, when compared to the same period last year, due to an increase in domestic advertising and promotional investment behind our Canadian whisky portfolio and, as of the acquisition date, promotional efforts and overheads related to the Ungava Spirits Brands, partially offset by the previously mentioned change in advertising and promotional strategy in the US.

For the nine-month period ended March 31, 2017, marketing, sales and administration expenses decreased by 3% year over year. The decrease is due to the aforementioned change in strategy in the US, being partially offset by increased advertising and promotional investment in the Ungava Spirits Brands, J.P. Wiser's Canadian whisky, Polar Ice vodka, and craft whiskies as well as higher overheads, which included certain one-off items related to employee costs as well as professional fees associated with the acquisition of the Ungava Spirits Brands.

### Net financial income

Net financial income is comprised of interest earned on deposits in cash management pools, offset by interest costs associated with the Company's pension and post-retirement benefit plans. On a three and nine month basis net financial income is consistent on a comparative basis.

### Income taxes

A reconciliation of the effective tax rate to the statutory rates for each period is presented below.

	Three Months Ended		Nine Months Ended	
	Mar 31 2017	Mar 31 2016	Mar 31 2017	Mar 31 2016
Combined basic Federal and Provincial tax rates	27%	27%	27%	27%
Other	0%	0%	0%	0%
Effective tax rate	27%	27%	27%	27%

### Liquidity and Capital Resources

Corby's sources of liquidity are its deposits in cash management pools of \$71.0 million as at March 31, 2017, and its cash generated from operating activities. Corby's total contractual maturities are represented by its accounts payable and accrued liabilities, which totalled \$25.9 million as at March 31, 2017, and are all due to be paid within one year. The Company does not have any liabilities under short- or long-term debt facilities.

The Company believes that its deposits in cash management pools, combined with its historically strong operational cash flows, provide for sufficient liquidity to fund its operations, investing activities and commitments for the foreseeable future. The Company's cash flows from operations are subject to fluctuation due to commodity, foreign exchange and interest rate risks. Please refer to the "Risks and Risk Management" section of this MD&A for further information.

### Cash Flows

	Three Months Ended			Nine Months Ended		
	Mar 31 2017	Mar 31 2016	\$ Change	Mar 31 2017	Mar 31 2016	\$ Change
<i>(in millions of Canadian dollars)</i>						
<b>Operating activities</b>						
Net earnings, adjusted for non-cash items	\$ 6.1	\$ 6.4	\$ (0.3)	\$ 28.6	\$ 26.5	\$ 2.1
Net change in non-cash working capital	(0.9)	(5.1)	4.2	(3.8)	(6.0)	2.2
Net payments for interest and income taxes	(2.6)	-	(2.6)	(7.3)	(3.0)	(4.3)
	2.6	1.3	1.3	17.5	17.5	-
<b>Investing activities</b>						
Additions to property and equipment	(0.6)	(1.0)	0.4	(1.9)	(2.1)	0.2
Business acquisition	(0.3)	-	-	(12.3)	-	(12.3)
Deposits in cash management pools	4.3	22.8	(18.5)	14.1	18.5	(4.4)
	3.4	21.8	(18.1)	(0.1)	16.4	(16.5)
<b>Financing activities</b>						
Dividends paid	(6.0)	(23.1)	17.1	(17.4)	(33.9)	16.5
Net change in cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

### Operating activities

Net cash from operating activities was \$2.6 million during the quarter ended March 31, 2017, compared to \$1.3 million in the same quarter last year, representing an increase of \$1.3 million. This increase is largely a result of favourable phasing of vendor payments, offset by increased tax payments.

For the nine-month period ended March 31, 2017, net cash from operating activities was \$17.5 million, which is relatively consistent with the same nine-month period last year and reflecting increased cash generated from net earnings on a year-to-date basis offset by an increase in our regular tax instalments as prescribed by Canadian tax authorities.

### ***Investing activities***

Net cash from investing activities was \$3.4 million for the three-month period ended March 31, 2017 compared to \$21.8 million for the same period last year. On a year-to-date basis, in the current year \$0.1million was used in investing activities compared to \$16.4 million generated from investing activities during the same nine-month periods last year.

The Company's completion of the acquisition of the Ungava Spirits Brands and additions to capital assets were funded by withdrawals from cash management pools on a year-to-date basis. Cash management pools represent cash on deposit with Citibank NA via Corby's Mirror Netting Service Agreement with PR. Corby has daily access to these funds and earns a market rate of interest from PR on its deposits. Changes in cash management pools reflect amounts either deposited in or withdrawn from these bank accounts and are simply a function of Corby's cash requirements during the period of time being reported on. For more information related to these deposits please refer to the "Related Party Transactions" section of this MD&A.

### ***Financing activities***

Cash used for financing activities was \$6.0 million for the three-month period ended March 31, 2017 and \$17.4 million for the nine-month period ended March 31, 2017 and represents payment of the Company's regular dividend to shareholders. The comparative three and nine-month periods last year included a special dividend of \$17.7m or \$0.62 per common share.

The following table summarizes dividends paid and payable by the Company over the last two fiscal years:

<u>for</u>	<u>Declaration date</u>	<u>Record Date</u>	<u>Payment date</u>	<u>\$ / Share</u>
2017 - Q3	May 10, 2017	May 26, 2017	June 14, 2017	\$ 0.21
2017 - Q2	February 8, 2017	February 24, 2017	March 10, 2017	0.21
2017 - Q1	November 9, 2016	November 25, 2016	December 9, 2016	0.21
2016 - Q4	August 24, 2016	September 15, 2016	September 30, 2016	0.19
2016 - Q3	May 4, 2016	May 27, 2016	June 15, 2016	0.19
2016 - Q2	February 3, 2016	February 26, 2016	March 11, 2016	0.19
2016 - special	November 11, 2015 (special dividend)	December 11, 2015	January 8, 2016	0.62
2016 - Q1	November 11, 2015	November 27, 2015	December 11, 2015	0.19
2015 - Q4	August 26, 2015	September 16, 2015	September 30, 2015	0.19
2015 - Q3	May 6, 2015	May 29, 2015	June 12, 2015	0.19

### **Outstanding Share Data**

As at May10, 2017, Corby had 24,274,320 Voting Class A Common Shares and 4,194,536 Non-Voting Class B Common Shares outstanding. The Company does not have a stock option plan, and therefore, there are no options outstanding.

### **Related Party Transactions**

#### ***Transactions with parent, ultimate parent, and affiliates***

Corby engages in a significant number of transactions with its parent company, its ultimate parent and various affiliates. Specifically, Corby renders services to its parent company, its ultimate parent, and affiliates for the marketing and sale of beverage alcohol products in Canada. Furthermore, Corby outsources the large majority of its distilling, maturing, storing, blending, bottling and related production activities to its parent company. A significant portion of Corby's bookkeeping, recordkeeping services, data processing and other administrative

services are also outsourced to its parent company. Transactions with the parent company, ultimate parent and affiliates are subject to Corby's related party transaction policy, which requires such transactions to undergo an extensive review and receive approval from an Independent Committee of the Board of Directors.

The companies operate under the terms of agreements that became effective on September 29, 2006 (the "2006 Agreements"). These agreements provide the Company with the exclusive right to represent PR's brands in the Canadian market for fifteen years, as well as providing for the continuing production of certain Corby brands by PR at its production facility in Windsor, Ontario, for ten years. Corby also manages PR's business interests in Canada, including the Windsor production facility. Certain officers of Corby have been appointed as directors and officers of PR's Canadian entities, as approved by Corby's Board of Directors. On August 26, 2015, Corby entered into an agreement with PR and certain affiliates amending the September 29, 2006 Canadian representation agreements, pursuant to which Corby will provide more specialized marketing, advertising and promotion services for the PR and affiliate brands under the applicable representation agreements in consideration of an increase to the rate of commission payable to Corby by such entities. On November 11, 2015, Corby and PR entered into agreements for the continued production and bottling of Corby's owned-brands by Pernod Ricard at the HWSL production facility in Windsor, Ontario, for a 10-year term commencing September 30, 2016. On the same date, Corby and PR also entered into an administrative services agreement, under which Corby will continue to manage PR's business interests in Canada, including the HWSL production facility, with a similar term and commencement date.

In addition to the 2006 Agreements, Corby signed an agreement on September 26, 2008, with its ultimate parent to be the exclusive Canadian representative for the ABSOLUT vodka and Plymouth gin brands, for a five-year term which expired October 1, 2013 and was extended as noted below. These brands were acquired by PR subsequent to the original representation rights agreement dated September 29, 2006. Corby also agreed to continue with the mirror netting arrangement with PR and its affiliates, under which Corby's excess cash will continue to be deposited to cash management pools. The mirror netting arrangement with PR and its affiliates is further described below. On November 9, 2011, Corby entered into an agreement with a PR affiliate for a new term for Corby's exclusive right to represent ABSOLUT vodka in Canada from September 30, 2013 to September 29, 2021, which is consistent with the term of Corby's Canadian representation of the other PR brands in Corby's portfolio (the "2011 Agreement"). On September 30, 2013, Corby paid the present value of \$10 million, or \$10.3 million, for the additional eight years of the new term pursuant to an agreement entered into between Corby and The Absolut Company Aktiebolag, an affiliate of PR and owner of the Absolut brand, to satisfy the parties' obligations under the 2011 Agreement. Since the 2011 Agreement is a related party transaction, the agreement was approved by the Independent Committee of the Corby Board of Directors, in accordance with Corby's related party transaction policy, following an extensive review and with external financial and legal advice.

On July 1, 2012, the Company entered into a five-year agreement with PR USA, an affiliated company, which provides PR USA the exclusive right to represent J.P. Wiser's Canadian whisky and Polar Ice vodka in the US (the "US Representation Agreement"). The US Representation Agreement provides these key brands with access to PR USA's extensive national distribution network throughout the US and complements PR USA's premium brand portfolio. The agreement is effective for a five-year period ending June 30, 2017. On March 29, 2017, the Company entered into an amending agreement with PR USA to extend the term of the US Representation Agreement to June 30, 2018 (the "Amending Agreement"). As the US Representation Agreement and the Amending Agreement with PR USA is a related party transaction between Corby and PR USA; as such, the agreements were approved by the Independent Committee of the Board of Directors of Corby following review, in accordance with Corby's related party transaction policy.

On March 21, 2016 the Company entered into an agreement with Pernod Ricard UK Ltd. ("PRUK"), an affiliated company, which provides PRUK the exclusive right to represent Lamb's rum in Great Britain effective July 1, 2016. Previously, Lamb's rum was represented by an unrelated third party in this market. The agreement provides Lamb's with access to PRUK's extensive national distribution network throughout Great Britain. The agreement is effective for a five-year period ending June 30, 2021. Since the agreement with PRUK is a related party transaction between Corby and PRUK, the agreement was approved by the Independent Committee of the Board of Directors of Corby following a thorough review, in accordance with Corby's related party transaction policy.

### **Deposits in cash management pools**

Corby participates in a cash pooling arrangement under a Mirror Netting Service Agreement, together with PR's other Canadian affiliates, the terms of which are administered by Citibank N.A. effective July 17, 2014. The Mirror Netting Service Agreement acts to aggregate each participant's net cash balance for purposes of having a centralized cash management function for all of PR's Canadian affiliates, including Corby. As a result of Corby's participation in this agreement, Corby's credit risk associated with its deposits in cash management pools is contingent upon PR's credit rating. PR's credit rating as at May 10, 2017, as published by Standard & Poor's and Moody's, was BBB- and Baa2, respectively. PR compensates Corby for the benefit it receives from having the Company participate in the Mirror Netting Service Agreement by paying interest to Corby based upon the 30-day Canadian Dealer Offered Rate ("CDOR") plus 0.40%. Corby accesses these funds on a daily basis and has the contractual right to withdraw these funds or terminate these cash management arrangements upon providing five days' written notice.

## **Selected Quarterly Information**

### **Summary of Quarterly Financial Results**

<i>(in millions of Canadian dollars, except per share amounts)</i>	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Revenue	\$ 28.8	\$ 40.3	\$ 34.6	\$ 37.2	\$ 28.0	\$ 38.3	\$ 36.4	\$ 32.5
Earnings from operations	4.6	9.8	8.8	12.8	5.0	8.2	8.6	9.8
Net earnings	3.3	7.2	6.4	9.3	3.7	6.1	6.3	7.3
Basic EPS	0.12	0.25	0.23	0.33	0.13	0.22	0.22	0.26
Diluted EPS	0.12	0.25	0.23	0.33	0.13	0.22	0.22	0.26

The above table demonstrates the seasonality of Corby's business, as sales are typically strong in the first and second quarters, while third-quarter sales (January, February and March) usually decline after the end of the retail holiday season. Fourth quarter sales typically increase again with the onset of warmer weather, as consumers tend to increase their purchasing levels during the summer season.

Revenue and net earnings of each the four individual 2016 quarters were higher than that of each of the 2015 quarters. This was primarily attributable to an increase in commissions, due to a negotiated commission rate increase on PR brands effective July 1, 2015. In addition, the fourth quarter of 2016 included bulk whisky sales to a third party customer as the Company rebalanced its maturing inventories.

## **Recent Accounting Pronouncements**

### **Adoption of new and revised accounting standards**

The Company implemented the amendments to IAS 1, "Presentation of Financial Statements", on July 1, 2016, with no significant impact on the Company's interim condensed consolidated financial statements.

### **Recent accounting pronouncements**

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year ending June 30, 2017, and accordingly, have not been applied in preparing these interim condensed consolidated financial statements:

(i) *Revenue*

In May 2014, the IASB released IFRS 15, "Revenue from contracts with customers" ("IFRS 15"), which supersedes IAS 11, "Construction Contracts", IAS 18, "Revenues", IFRIC 13, "Customer Loyalty Programmes", IFRIC 15, "Agreement for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue – Barter Transactions Involving Advertising Services". The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 will be effective for Corby's fiscal year beginning on July 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

(ii) *Financial Instruments*

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. For Corby, this standard will become effective July 1, 2018. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

(iii) *Leases*

In January 2016, the IASB issued a new standard IFRS 16, "Leases" ("IFRS 16"), which will ultimately replace IAS 17, "Leases" ("IAS 17"). IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessees accounting model, requiring lessees to recognize assets and liability for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively. For Corby, this standard will become effective July 1, 2019. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

## **Internal Controls Over Financial Reporting**

The Company maintains a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

In addition, the CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

In accordance with the provisions of National Instrument 52-109 – *Certification of disclosure in Issuers' Annual and Interim Filings*, the Company has limited the design of its disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Ungava Spirits. Corby acquired the Ungava Spirits Brands on September 30, 2016, and the brand portfolio and other assets acquired are currently operated by Corby's wholly-owned subsidiary, Ungava Spirits.

Further details related to the acquisition of the Ungava Spirits Brands is disclosed under "Significant Event – Acquisition of the spirits assets of Quebec-based Domaines Pinnacle Inc." in this MD&A and in Note 4 in the Notes to the Company's interim condensed consolidated financial statements for the three and nine-month periods ended March 31, 2017.

Since the completion of the Ungava Spirits transaction on September 30, 2016, the acquired Ungava Spirits Brands have contributed \$4.3 million to revenues and -\$0.1 million to net earnings. These results are impacted by seasonal fluctuations in that the retail holiday season generally results in an increase in consumer purchases over the course of October, November and December. The purchase price has been preliminarily allocated as described in Note 4 to the interim condensed consolidated financial statements for the three and nine months ended March 31, 2017.

The scope limitation discussed under this section is primarily based on the time required to assess Ungava Spirits' disclosure controls and procedures and internal controls over financial reporting in a manner that is consistent with the Company's other operations.

Except for the preceding changes, there were no changes in internal control over financial reporting during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Risks & Risk Management**

The Company is exposed to a number of risks in the normal course of its business that have the potential to affect its operating and financial performance.

### ***Industry and Regulatory***

The beverage alcohol industry in Canada is subject to government policy, extensive regulatory requirements and significant rates of taxation at both the federal and provincial levels. As a result, changes in the government policy, regulatory and/or taxation environments within the alcoholic beverage industry may affect Corby's business operations, causing changes in market dynamics or changes in consumer consumption patterns. In addition, the Company's provincial LB customers have the ability to mandate changes that can lead to increased costs, as well as other factors that may impact financial results.

Additionally, as the Company becomes more reliant on international product sales in the US, UK and other countries, exposure to changes in the laws and regulations (including on matters such as regulatory requirements, import duties and taxation) in those countries could also adversely affect the operations, financial performance or reputation of the Company.

The Company continuously monitors the potential risk associated with any proposed changes to its government policy, regulatory and taxation environments and, as an industry leader, actively participates in trade association discussions relating to new developments.

### ***Consumer Consumption Patterns***

Beverage alcohol companies are susceptible to risks relating to changes in consumer consumption patterns. Consumer consumption patterns are affected by many external influences, not the least of which is economic outlook and overall consumer confidence in the stability of the economy as a whole. Corby offers a diverse portfolio of products across all major spirits categories and at various price points. Corby continues to identify and offer new innovations in order to address consumer desires.

### ***Distribution/Supply Chain Interruption***

The Company is susceptible to risks relating to distributor and supply chain interruptions. Distribution in Canada is largely accomplished through the government-owned provincial LBs and, therefore, an interruption (e.g., a labour strike) for any length of time may have a significant impact on the Company's ability to sell its products in a particular province and/or market. International sales are subject to the variations in distribution systems within each country where the products are sold.

Supply chain interruptions, including a manufacturing or inventory disruption, could impact product quality and availability. The Company adheres to a comprehensive suite of quality programmes and proactively manages production and supply chains to mitigate any potential risk to consumer safety or Corby's reputation and profitability.

Inherent to producing mature products there is a potential for shortages or surpluses in future years if demand and supply are materially different from long-term forecasts. Additionally, the loss through contamination, fire or

other natural disaster of the stock of mature products may result in significant reduction in supply and as a result, Corby may not be able to meet customer demands.

### ***Environmental Compliance***

Environmental liabilities may potentially arise when companies are in the business of manufacturing products and, thus, required to handle potentially hazardous materials. As Corby outsources its production, including all of its storage and handling of maturing alcohol, the risk of environmental liabilities is considered minimal. Corby currently has no significant recorded or unrecorded environmental liabilities.

### ***Industry Consolidation***

In recent years, the global beverage alcohol industry has continued to experience consolidation. Industry consolidation can have varying degrees of impact and, in some cases, may even create exceptional opportunities. Either way, management believes that the Company is well positioned to deal with this or other changes to the competitive landscape in Canada and other markets in which it carries on business.

### ***Corby's ability to properly complete acquisitions and subsequently integrate them may affect its results***

Corby monitors growth opportunities that may present themselves to Corby, including by way of acquisitions. While we believe that an acquisition may create the opportunity to realize certain benefits, achieving these benefits will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in an efficient manner, as well as our ability to realize any anticipated growth opportunities or costs-savings from combining the target's assets and operations with our existing brands and operations. Consolidation and integration efforts following any acquisition may require the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. In addition, Corby may be required to assume greater than expected liabilities due to liabilities that are undisclosed at the time of completion of an acquisition. A failure to realize, in whole or in part, the anticipated benefits of an acquisition may have a negative impact on the results or financial position of Corby.

### ***Competition***

The Canadian and international beverage alcohol industry is extremely competitive. Competitors may take actions to establish and sustain a competitive advantage through advertising and promotion and pricing strategies in an effort to maintain market share, which may negatively affect our sales, revenues and profitability. Corby constantly monitors the market and adjusts its own advertising, promotion and pricing strategies as appropriate.

Competitors may also affect Corby's ability to attract and retain high-quality employees. The Company's long heritage attests to Corby's strong foundation and successful execution of its strategies. Its role as a leading Canadian beverage alcohol company helps facilitate recruitment efforts.

### ***Credit Risk***

Credit risk arises from deposits in cash management pools held with PR via Corby's participation in the Mirror Netting Service Agreement (as previously described in the "Related Party Transactions" section of this MD&A), as well as credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the Company's financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of its counterparties, taking into account their financial position, past experience and other factors. As the large majority of Corby's accounts receivable balances are collectable from government-controlled LBs, management believes the Company's credit risk relating to accounts receivable is at an acceptably low level.

### ***Exposure to Interest Rate Fluctuations***

The Company does not have any short- or long-term debt facilities. Interest rate risk exists, as Corby earns market rates of interest on its deposits in cash management pools. An active risk management programme does not exist, as management believes that changes in interest rates would not have a material impact on Corby's financial position over the long term.

### ***Exposure to Commodity Price Fluctuations***

Commodity risk exists, as the manufacture of Corby's products requires the procurement of several known commodities, such as grains, sugar and natural gas. The Company strives to partially mitigate this risk through

the use of longer-term procurement contracts where possible. In addition, subject to competitive conditions, the Company may pass on commodity price changes to consumers through pricing over the long term.

### ***Foreign Currency Exchange Risk***

The Company has exposure to foreign currency risk, as it conducts business in multiple foreign currencies; however, its exposure is primarily limited to the US dollar (“USD”) and UK pound sterling (“GBP”). Corby does not utilize derivative instruments to manage this risk. Subject to competitive conditions, changes in foreign currency rates may be passed on to consumers through pricing over the long term.

### **USD Exposure**

The Company’s demand for USD has traditionally outpaced its supply, due to USD sourcing of production inputs and Advertising & Promotion expenses exceeding that of the Company’s USD sales. Therefore, decreases in the value of the Canadian dollar (“CAD”) relative to the USD will have an unfavourable impact on the Company’s earnings.

### **GBP Exposure**

The Company’s exposure to fluctuations in the value of the GBP relative to the CAD was reduced as both sales and cost of production are denominated in GBP. While Corby’s exposure has been minimized, increases in the value of the CAD relative to the GBP will have an unfavourable impact on the Company’s earnings.

### ***Third-Party Service Providers***

HWSL, which Corby manages on behalf of PR, provides more than 90% of the Company’s production requirements, among other services including administration and information technology. However, the Company is reliant upon certain third-party service providers in respect of certain of its operations. It is possible that negative events affecting these third-party service providers could, in turn, negatively impact the Company. While the Company has no direct control over how such third parties are managed, it has entered into contractual arrangements to formalize these relationships. In order to minimize operating risks, the Company actively monitors and manages its relationships with its third-party service providers.

### ***Brand Reputation and Trademark Protection***

The Company promotes nationally branded, non-proprietary products as well as proprietary products. Damage to the reputation of any of these brands, or to the reputation of any supplier or manufacturer of these brands, could negatively impact consumer opinion of the Company or the related products, which could have an adverse impact on the financial performance of the Company. The Company strives to mitigate such risks by selecting only those products from suppliers that strategically complement Corby’s existing brand portfolio and by actively monitoring brand advertising and promotion activities.

Additionally, although the Company registers trademarks, as applicable, it cannot be certain that trademark registrations will be issued with respect to all of the Company’s applications. Also while Corby constantly watches for and responds to competitive threats, as necessary, the Company cannot predict or prevent a competitor from challenging the validity of any existing or future trademark issued or licensed to Corby.

### ***Information Technology and Cyber Security***

The Company uses technology supplied by third parties, both related and non-related, to support operations and invests in information technology to improve route to market, reporting, analysis, and marketing initiatives. Issues with availability, reliability and security of systems and technology could adversely impact the Company’s ability to compete resulting in corruption or loss of data, regulatory related issues, litigation or brand reputation damage. With the fast paced changing nature of the technology environment including digital marketing, the Company works with our third parties to maintain policies, processes and procedures to help secure and protect these information systems as well as consumer, corporate and employee data.

### ***Valuation of Goodwill and Intangible Assets***

Goodwill and intangible assets account for a significant amount of the Company’s total assets. Goodwill and intangible assets are subject to impairment tests that involve the determination of fair value. Inherent in such fair value determinations are certain judgments and estimates including, but not limited to, projected future sales, earnings and capital investment; discount rates; and terminal growth rates. These judgments and estimates may change in the future due to uncertain competitive market and general economic conditions, or as the Company makes changes in its business strategies. Given the current state of the economy, certain of the aforementioned

factors affecting the determination of fair value may be impacted and, as a result, the Company's financial results may be adversely affected.

The following table summarizes Corby's goodwill and intangible assets and details the amounts associated with each brand (or basket of brands) and market:

Associated Brand	Associated Market	Carrying Values as at March 31, 2017		
		Goodwill	Intangibles	Total
Various PR brands	Canada	\$ -	\$ 26.2	\$ 26.2
Lamb's rum	United Kingdom <sup>(1)</sup>	1.4	11.8	13.2
Corby domestic brands	Canada	1.9	-	1.9
Ungava brands (preliminary allocation)	Canada	8.0	-	8.0
		\$ 11.3	\$ 38.0	\$ 49.3

<sup>(1)</sup> The international business for Lamb's rum is primarily focused in the UK, however, the trademarks and licences purchased relate to all international markets outside of Canada, as Corby previously owned the Canadian rights.

Therefore, economic factors (such as consumer consumption patterns) specific to these brands and markets are primary drivers of the risk associated with their respective goodwill and intangible assets valuations.

#### **Employee Future Benefits**

The Company has certain obligations under its registered and non-registered defined benefit pension plans and other post-retirement benefit plan. There is no assurance that the Company's benefit plans will be able to earn the assumed rate of return. New regulations and market-driven changes may result in changes in the discount rates and other variables, which would result in the Company being required to make contributions in the future that differ significantly from estimates. An extended period of depressed capital markets and low interest rates could require the Company to make contributions to these plans in excess of those currently contemplated, which, in turn, could have an adverse impact on the financial performance of the Company. Somewhat mitigating the impact of a potential market decline is the fact that the Company monitors its pension plan assets closely and follows strict guidelines to ensure that pension fund investment portfolios are diversified in-line with industry best practices. For further details, related to Corby's defined benefit pension plans, please refer to Note 15 of the consolidated financial statements for the year ended June 30, 2016.

**CORBY SPIRIT AND WINE LIMITED**  
**INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

*(not audited or reviewed by the Company's external auditor)*  
*(in thousands of Canadian dollars)*

	Notes	Mar. 31, 2017	Mar. 31, 2016	June 30, 2016
<b>ASSETS</b>				
Deposits in cash management pools		\$ 70,957	\$ 75,598	\$ 85,031
Accounts receivable	6	27,885	26,214	30,045
Inventories	7	56,739	52,907	54,173
Prepaid expenses		815	336	476
<b>Total current assets</b>		<b>156,396</b>	<b>155,055</b>	<b>169,725</b>
Deferred income taxes		1,745	683	2,099
Property and equipment		13,839	10,647	11,003
Goodwill		11,347	3,278	3,278
Intangible assets		37,986	43,868	42,398
<b>Total assets</b>		<b>\$ 221,313</b>	<b>\$ 213,531</b>	<b>\$ 228,503</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	8	\$ 25,882	\$ 23,111	\$ 30,719
Income and other taxes payable		445	489	2,359
<b>Total current liabilities</b>		<b>26,327</b>	<b>23,600</b>	<b>33,078</b>
Provision for employee benefits		24,033	19,029	24,640
<b>Total liabilities</b>		<b>50,360</b>	<b>42,629</b>	<b>57,718</b>
<b>Shareholders' equity</b>				
Share capital		14,304	14,304	14,304
Accumulated other comprehensive loss		(9,639)	(6,184)	(10,220)
Retained earnings		166,288	162,782	166,701
<b>Total shareholders' equity</b>		<b>170,953</b>	<b>170,902</b>	<b>170,785</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 221,313</b>	<b>\$ 213,531</b>	<b>\$ 228,503</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CORBY SPIRIT AND WINE LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

*(not audited or reviewed by the Company's external auditor)*  
*(in thousands of Canadian dollars, except per share amounts)*

	Notes	For the Three Months Ended		For the Nine Months Ended	
		Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2016
<b>Revenue</b>	9	\$ 28,783	\$ 28,042	\$ 103,681	\$ 102,800
Cost of sales		(11,247)	(10,004)	(38,083)	(37,197)
Marketing, sales and administration		(12,917)	(12,808)	(42,261)	(43,528)
Other income (expense)	10	5	(198)	(22)	(215)
<b>Earnings from operations</b>		<b>4,624</b>	<b>5,032</b>	<b>23,315</b>	<b>21,860</b>
Financial income	11	230	269	723	860
Financial expenses	11	(265)	(250)	(784)	(729)
		(35)	19	(61)	131
<b>Earnings before income taxes</b>		<b>4,589</b>	<b>5,051</b>	<b>23,254</b>	<b>21,991</b>
Current income taxes		(1,216)	(1,159)	(6,162)	(5,603)
Deferred income taxes		(27)	(229)	(139)	(281)
Income taxes		(1,243)	(1,388)	(6,301)	(5,884)
<b>Net earnings</b>		<b>\$ 3,346</b>	<b>\$ 3,663</b>	<b>\$ 16,953</b>	<b>\$ 16,107</b>
<b>Basic earnings per share</b>		<b>\$ 0.12</b>	<b>\$ 0.13</b>	<b>\$ 0.60</b>	<b>\$ 0.57</b>
<b>Diluted earnings per share</b>		<b>\$ 0.12</b>	<b>\$ 0.13</b>	<b>\$ 0.60</b>	<b>\$ 0.57</b>
<b>Weighted average common shares outstanding</b>					
Basic		28,468,856	28,468,856	28,468,856	28,468,856
Diluted		28,468,856	28,468,856	28,468,856	28,468,856

The accompanying notes are an integral part of these consolidated financial statements.

**CORBY SPIRIT AND WINE LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(not audited or reviewed by the Company's external auditor)*  
*(in thousands of Canadian dollars)*

	For the Three Months Ended		For the Nine Months Ended	
	Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2016
<b>Net earnings</b>	\$ 3,346	\$ 3,663	\$ 16,953	\$ 16,107
<b>Other Comprehensive Income:</b>				
Amounts that will not be subsequently reclassified to earnings:				
Net actuarial losses	265	250	794	750
Income taxes	(71)	(67)	(213)	(201)
	194	183	581	549
<b>Total comprehensive income</b>	\$ 3,540	\$ 3,846	\$ 17,534	\$ 16,656

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

*(not audited or reviewed by the Company's external auditor)*  
*(in thousands of Canadian dollars)*

	Share Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance as at June 30, 2016	\$ 14,304	\$ (10,220)	\$ 166,701	\$ 170,785
Total comprehensive income	-	581	16,953	17,534
Dividends	-	-	(17,366)	(17,366)
<b>Balance as at March 31, 2017</b>	\$ 14,304	\$ (9,639)	\$ 166,288	\$ 170,953
Balance as at June 30, 2015	\$ 14,304	\$ (6,733)	\$ 180,553	\$ 188,124
Total comprehensive income	-	549	16,107	16,656
Dividends	-	-	(33,878)	(33,878)
Balance as at March 31, 2016	\$ 14,304	\$ (6,184)	\$ 162,782	\$ 170,902

The accompanying notes are an integral part of these consolidated financial statements.

# CORBY SPIRIT AND WINE LIMITED

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(not audited or reviewed by the Company's external auditor)  
(in thousands of Canadian dollars)

	Notes	For the Three Months Ended		For the Nine Months Ended	
		Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2016
<b>Operating activities</b>					
Net earnings		\$ 3,346	\$ 3,663	\$ 16,953	\$ 16,107
Adjustments for:					
Amortization and depreciation	12	2,027	1,911	5,991	5,695
Net financial income	11	35	(19)	61	(131)
Gain on disposal of property and equipment		(6)	-	(6)	(7)
Income tax expense		1,243	1,388	6,301	5,884
Provision for employee benefits		(404)	(487)	(597)	(988)
		6,241	6,456	28,703	26,560
Net change in non-cash working capital balances	13	(1,011)	(5,149)	(3,868)	(6,039)
Interest received		227	259	723	851
Income taxes paid		(2,830)	(280)	(8,076)	(3,857)
<b>Net cash from operating activities</b>		<b>2,627</b>	<b>1,286</b>	<b>17,482</b>	<b>17,515</b>
<b>Investing activities</b>					
Additions to property and equipment		(627)	(1,006)	(1,907)	(2,152)
Proceeds from disposition of property and equipment		63	2	63	13
Business acquisition		(346)	-	(12,346)	-
Deposits in cash management pools		4,261	22,778	14,074	18,502
<b>Net cash from investing activities</b>		<b>3,351</b>	<b>21,774</b>	<b>(116)</b>	<b>16,363</b>
<b>Financing activity</b>					
Dividends paid		(5,978)	(23,060)	(17,366)	(33,878)
<b>Net cash used in financing activity</b>		<b>(5,978)</b>	<b>(23,060)</b>	<b>(17,366)</b>	<b>(33,878)</b>
<b>Net increase in cash</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash, beginning of year		-	-	-	-
<b>Cash, end of year</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these consolidated financial statements.

# **CORBY SPIRIT AND WINE LIMITED**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(not audited or reviewed by the Company's external auditor)  
(in thousands of Canadian dollars, except per share amounts)*

---

### **1. GENERAL INFORMATION**

Corby Spirit and Wine Limited ("Corby" or the "Company") is a leading Canadian marketer of spirits and importer of wines. The Company derives its revenues from the sale of its owned-brands in Canada and other international markets, as well as earning commissions from the representation of selected non-owned brands in the Canadian marketplace. Revenues predominantly consist of sales made to each of the provincial liquor boards in Canada. The Company also supplements these primary sources of revenue with other ancillary activities incidental to its core business, such as logistics fees.

Corby is controlled by Hiram Walker & Sons Limited ("HWSL"), which is a wholly owned subsidiary of Pernod Ricard, S.A. ("PR"), a French public limited company that controls 51.6% of the outstanding Voting Class A Common Shares of Corby as at March 31, 2017.

Corby is a public company incorporated and domiciled in Canada, whose shares are traded on the Toronto Stock Exchange. The Company's registered address is 225 King Street West, Suite 1100, Toronto, ON M5V 3M2.

### **2. BASIS OF PREPARATION**

#### ***Statement of compliance***

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements, except for changes in accounting policies and methods described in Note 3 to these interim condensed consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's 2016 annual financial statements.

These interim condensed consolidated financial statements were approved by the Company's Board of Directors on May 10, 2017.

#### ***Functional and presentation currency***

The Company's interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

#### ***Foreign currency translation***

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rate applying at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies are recognized at the historical exchange rate applicable at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate applying at the balance sheet date. Foreign currency differences related to operating activities are recognized in earnings from operations for the period; foreign currency differences related to financing activities are recognized within net financial income.

## 2. BASIS OF PREPARATION (continued)

### ***Basis of Measurement***

These interim condensed consolidated financial statements are prepared in accordance with the historical cost model, except for certain categories of assets and liabilities, which are measured in accordance with other methods provided for by IFRS as explained in the accounting policies as described in the most recent annual consolidated financial statements, except for policies and methods described in Note 3 to these interim condensed consolidated financial statements. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### ***Use of Estimates and Judgements***

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make certain judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are made on the assumption the Company will continue as a going concern and are based on information available at the time of preparation. Estimates may be revised where the circumstance on which they were based change or where new information becomes available. Future outcomes can differ from these estimates.

Judgement is commonly used in determining whether a balance or transaction should be recognized in the interim condensed consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgement and estimates are often interrelated.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management's most critical estimates in determining the value of assets and liabilities and the most critical judgements in applying accounting policies that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next year have been described in Note 2 of the Company's most recent annual consolidated financial statements. The following discussion is an additional application of critical estimates and assumptions.

#### *(i) Purchase Price Allocation*

The purchase price related to a business combination is allocated to the underlying acquired assets and liabilities based on their estimated fair values at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgements regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the impact on future depreciation and amortization expense and impairment tests. In addition, due to the timing and complexities related to business combinations, adjustments to provisional amounts recorded are expected subsequent to the reporting period until the allocation is finalized.

### ***Seasonality***

The interim condensed consolidated financial statements should not be taken as indicative of the performance to be expected for the full fiscal year due to the seasonal nature of the spirits business. Corby's operations are typically subject to seasonal fluctuations in that the retail holiday season generally results in an increase in consumer purchases over the course of October, November and December. Further, the summer months traditionally result in higher consumer purchases of spirits as compared to the winter and spring months. As a result, the Company's first and second quarter of each fiscal year tend to reflect the impact of seasonal fluctuations in that more shipments are typically made during those quarters.

### 3. SIGNIFICANT ACCOUNTING POLICIES

In addition to the accounting policies described in the most recent annual consolidated financial statements, the following policies have been applied to these interim condensed consolidated financial statements.

#### ***Business Combinations***

The Company applies the acquisition method in accounting for business combinations. The cost of an acquisition is the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition related costs are expensed as incurred.

Goodwill represents the excess of the consideration transferred over the fair value of identifiable assets acquired and liabilities assumed in business combinations, all measured at fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period to reflect new information about facts and circumstances that existed at the acquisition date that, if known would have affected the amounts recognized at that time.

#### ***Adoption of new and revised accounting standards***

The Company implemented the amendments to IAS 1, "Presentation of Financial Statements", on July 1, 2016, with no significant impact on the Company's interim condensed consolidated financial statements.

#### ***Recent accounting pronouncements***

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year ending June 30, 2017, and accordingly, have not been applied in preparing these interim condensed consolidated financial statements:

##### *(iv) Revenue*

In May 2014, the IASB released IFRS 15, "Revenue from contracts with customers" ("IFRS 15"), which supersedes IAS 11, "Construction Contracts", IAS 18, "Revenues", IFRIC 13, "Customer Loyalty Programmes", IFRIC 15, "Agreement for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue – Barter Transactions Involving Advertising Services". The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. IFRS 15 will be effective for Corby's fiscal year beginning on July 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

##### *(v) Financial Instruments*

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

This standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. For Corby, this standard will become effective July 1, 2018. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

#### (vi) *Leases*

In January 2016, the IASB issued a new standard IFRS 16, "Leases" ("IFRS 16"), which will ultimately replace IAS 17, "Leases" ("IAS 17"). IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessees accounting model, requiring lessees to recognize assets and liability for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively. For Corby, this standard will become effective July 1, 2019. The Company is currently assessing the impact of the new standard on its financial statements and disclosures.

### 4. BUSINESS ACQUISITION

On September 30, 2016, the Company acquired the spirits assets of Quebec-based Domaines Pinnacle for a purchase price of \$12,000. The transaction includes Domaines Pinnacle's spirits portfolio, including the Ungava® Premium Canadian gin brand, Chic Choc® Spiced rum, a range of maple-based liqueur products as well as production assets and related working capital. The acquired brand portfolio and other assets will be operated as Ungava Spirits Co. Ltd., ("Ungava Spirits") a new, wholly-owned subsidiary of Corby.

The acquisition added the Ungava Spirits brands, which include Ungava® Premium Canadian gin brand, Chic Choc® spiced rum, and a range of maple-based liqueurs including Coureur des Bois® and Cabot Trail®, complementing Corby's existing Canadian portfolio. The acquisition was accounted for using the acquisition method.

Acquisition costs of \$615 arose as a result of the transaction. These costs have been recognized as part of marketing, sales and administration expenses in the statement of earnings, of which \$411 was recognized in the nine-month period ended March 31, 2017.

The purchase price was funded from the Company's deposits in cash management pools and is subject to final working capital adjustments.

The Ungava Spirits transaction was completed on September 30, 2016. Since the transaction date, the acquired brands and assets have contributed \$4,322 to revenues and a net loss of \$138. These results are impacted by seasonal fluctuations in that the retail holiday season generally results in an increase in consumer purchases over the course of October, November and December. Revenues are included in case goods sales in Note 9.

Estimated fair values of the identifiable net assets acquired and the total consideration transferred as at September 30, 2016 have been determined provisionally and are subject to adjustment. During the third quarter ended March 31, 2017, the Company identified measurement period adjustments based on new information relating primarily to accounts receivable and inventory. Provisional amounts for intangible assets are recorded in goodwill as they have not been separately identified, valued or recognized as part of the purchase price allocation, and are pending completion of a comprehensive valuation. As a result, goodwill, which is the excess of the purchase price over the fair value of the net identifiable assets acquired, will be adjusted retrospectively to the acquisition date in future reporting periods.

#### 4. BUSINESS ACQUISITION (continued)

The following table summarizes the estimated fair value of consideration transferred and provisional fair value assigned to identifiable net assets acquired:

<b>Fair value of consideration transferred:</b>	
Cash	\$10,632
Working capital adjustment	1,180
	<hr/>
	\$11,812
<b>Identifiable net assets acquired:</b>	
Trade receivables	405
Inventory	1,165
Property, plant and equipment	2,563
Trade payables	(390)
	<hr/>
	\$3,743
<b>Excess initially allocated to goodwill</b>	<hr/>
	\$8,069

Goodwill arising from this transaction is expected to be deductible for tax purposes.

#### 5. FAIR VALUE

The Company uses a fair value hierarchy in order to classify the fair value measurements and disclosures related to the Company's financial assets and financial liabilities. The fair value hierarchy has the following levels:

- Level 1 – Quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – Unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The Company has no financial instruments carried at fair value on its balance sheet. For financial assets and liabilities that are valued at other than fair value on its balance sheets (i.e., deposits in cash management pools, accounts receivable, accounts payable and accrued liabilities), fair value approximates their carrying value at each balance sheet date due to their short-term maturities. Fair value is determined using Level 2 inputs.

#### 6. ACCOUNTS RECEIVABLE

	Mar. 31, 2017	Mar. 31, 2016	June 30, 2016
Trade receivables	\$ 15,809	\$ 14,779	\$ 15,152
Due from related parties	10,467	9,677	13,055
Other	1,609	1,758	1,838
	<hr/>		
	\$ 27,885	\$ 26,214	\$ 30,045

## 7. INVENTORIES

	Mar. 31, 2017	Mar. 31, 2016	June 30, 2016
Raw materials	\$ 2,781	\$ 1,987	\$ 2,088
Work-in-progress	44,669	43,842	44,005
Finished goods	9,289	7,078	8,080
	<b>\$ 56,739</b>	<b>\$ 52,907</b>	<b>\$ 54,173</b>

The cost of inventory recognized as an expense and included in cost of goods sold for the three and nine months ended March 31, 2017 were \$10,263 and \$33,681 (2016 – \$7,391 and \$28,750), respectively. During the three and nine month periods ended March 31, 2017 and 2016, there were write-downs of \$385 (for the three and nine month periods ending March 31, 2016, writedowns were \$135, and \$252 respectively). No inventory write-downs recognized in previous years were reversed. Inventory write-downs are included in cost of goods sold.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Mar. 31, 2017	Mar. 31, 2016	June 30, 2016
Trade payables and accruals	\$ 16,738	\$ 15,260	\$ 22,570
Due from related parties	8,022	6,735	6,657
Other	1,122	1,116	1,492
	<b>\$ 25,882</b>	<b>\$ 23,111</b>	<b>\$ 30,719</b>

## 9. REVENUE

The Company's revenue consists of the following streams:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2017	Mar. 31, 2016
Case goods sales	\$ 23,073	\$ 22,584	\$ 83,134	\$ 82,480
Commissions (net of amortization of representation rights)	5,145	4,603	18,332	17,083
Other services	565	855	2,215	3,237
	<b>\$ 28,783</b>	<b>\$ 28,042</b>	<b>\$ 103,681</b>	<b>\$ 102,800</b>

Commissions for the three and nine month periods are shown net of amortization of long-term representation rights and non-refundable upfront fees of \$1,471 and \$4,412 (2016 - \$1,471 and \$4,412). Other services include revenues incidental to the manufacture of case goods, such as logistics fees.

## 10. OTHER INCOME AND (EXPENSE)

The Company's other income (expense) consists of the following amounts:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>Mar. 31, 2017</b>	Mar. 31, 2016	<b>Mar. 31, 2017</b>	Mar. 31, 2016
Foreign exchange loss	\$ (1)	\$ (198)	\$ (28)	\$ (222)
Gain on disposal of property and equipment	6	-	6	7
	<b>\$ 5</b>	<b>\$ (198)</b>	<b>\$ (22)</b>	<b>\$ (215)</b>

## 11. NET FINANCIAL EXPENSE AND INCOME

The Company's financial (expense) income consists of the following amounts:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>Mar. 31, 2017</b>	Mar. 31, 2016	<b>Mar. 31, 2017</b>	Mar. 31, 2016
Interest income	\$ 230	\$ 269	\$ 723	\$ 860
Net financial impact of pensions	(265)	(250)	(784)	(729)
	<b>\$ (35)</b>	<b>\$ 19</b>	<b>\$ (61)</b>	<b>\$ 131</b>

## 12. EXPENSES BY NATURE

Earnings from operations include depreciation and amortization, as well as personnel expenses as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>Mar. 31, 2017</b>	Mar. 31, 2016	<b>Mar. 31, 2017</b>	Mar. 31, 2016
Depreciation of property and equipment	\$ 556	\$ 440	\$ 1,579	\$ 1,283
Amortization of intangible assets	1,471	1,471	4,412	4,412
Salary and payroll costs	6,557	5,551	18,624	16,382
Expenses related to pensions and benefits	375	323	1,124	968
	<b>\$ 8,959</b>	<b>\$ 7,785</b>	<b>\$ 25,739</b>	<b>\$ 23,045</b>

## 13. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>Mar. 31, 2017</b>	Mar. 31, 2016	<b>Mar. 31, 2017</b>	Mar. 31, 2016
Accounts receivable	\$ 5,439	\$ 4,384	\$ 3,075	\$ (1,451)
Inventories	(1,222)	(1,524)	(1,401)	(2,049)
Prepaid expenses	(239)	35	(315)	(110)
Accounts payable and accrued liabilities	(4,989)	(8,044)	(5,227)	(2,429)
	<b>\$ (1,011)</b>	<b>\$ (5,149)</b>	<b>\$ (3,868)</b>	<b>\$ (6,039)</b>

## 14. DIVIDENDS

On May 10, 2017 subsequent to the quarter ended March 31, 2017, the Board of Directors declared its regular quarterly dividend of \$0.21 per common share, to be paid on June 14, 2017, to shareholders of record as at the close of business on May 26, 2017. This dividend is in accordance with the Company's dividend policy.

## 15. RELATED PARTY TRANSACTIONS

### ***Transactions with parent, ultimate parent, and affiliates***

The majority of Corby's issued and outstanding voting Class A shares are owned by HWSL. HWSL is a wholly-owned subsidiary of PR. Therefore, HWSL is Corby's parent and PR is Corby's ultimate parent. Affiliated companies are subsidiaries which are controlled by Corby's parent and/or ultimate parent.

The companies operate under the terms of agreements that became effective on September 29, 2006. These agreements provide the Company with the exclusive right to represent PR's brands in the Canadian market for 15 years, as well as providing for the continuing production of certain Corby brands by PR at its production facility in Windsor, Ontario, for 10 years. Corby also manages PR's business interests in Canada, including the Windsor production facility. Certain officers of Corby have been appointed as directors and officers of PR's Canadian entities, as approved by Corby's Board of Directors. Recently, the production and administrative agreements were each renewed for a further ten year term, commencing October 2016.

In addition to the aforementioned agreements, Corby signed an agreement on September 26, 2008, with its ultimate parent to be the exclusive Canadian representative for the ABSOLUT vodka and Plymouth gin brands, for a five-year term which expired October 1, 2013 and was extended as noted below. These brands were acquired by PR subsequent to the original representation rights agreement dated September 29, 2006.

On November 9, 2011, Corby entered into an agreement with a PR affiliate for a new term for Corby's exclusive right to represent ABSOLUT vodka in Canada from September 30, 2013 to September 29, 2021, which is consistent with the term of Corby's Canadian representation of the other PR brands in Corby's portfolio. On September 30, 2013, Corby paid the present value of \$10 million, or \$10.3 million, for the additional eight years of the new term pursuant to an agreement entered into between Corby and The Absolut Company Aktiebolag, an affiliate of PR and owner of the Absolut brand, to satisfy the parties' obligations under the 2011 agreement.

On July 1, 2012, the Company entered into a five-year agreement with PR USA, an affiliated company, which provides PR USA the exclusive right to represent J.P. Wiser's Canadian whisky and Polar Ice vodka in the US (the "US Representation Agreement"). The US Representation Agreement provides these key brands with access to PR USA's extensive national distribution network throughout the US and complements PR USA's premium brand portfolio. The agreement is effective for a five-year period ending June 30, 2017. On March 29, 2017, the Company entered into an amending agreement with PR USA to extend the term of the US Representation Agreement to June 30, 2018 (the "Amending Agreement"). As the US Representation Agreement and the Amending Agreement with PR USA is a related party transaction between Corby and PR USA; as such, the agreements were approved by the Independent Committee of the Board of Directors of Corby following review, in accordance with Corby's related party transaction policy.

On March 21, 2016 the Company entered into an agreement with Pernod Ricard UK Ltd. ("PRUK"), an affiliated company, which provides PRUK the exclusive rights to represent Lamb's rum in Great Britain effective July 1, 2016. Previously, Lamb's rum was represented by an unrelated third party in this market. The agreement is effective for a five-year period ending June 30, 2021.

## 15. RELATED PARTY TRANSACTIONS (continued)

Transactions between Corby and its parent, ultimate parent and affiliates during the period are as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<b>Mar. 31, 2017</b>	Mar. 31, 2016	<b>Mar. 31, 2017</b>	Mar. 31, 2016
<b>Sales to related parties</b>				
Commissions - parent, ultimate parent and affiliated companies	\$ 6,186	\$ 5,459	\$ 21,382	\$ 19,737
Products for resale at an export level - affiliated companies	1,222	1,186	4,639	3,854
	<b>\$ 7,408</b>	\$ 6,645	<b>\$ 26,021</b>	\$ 23,591
<b>Cost of goods sold, purchased from related parties</b>				
Distilling, blending, and production services - parent	\$ 5,034	\$ 5,061	\$ 16,050	\$ 17,305
<b>Administrative services purchased from related parties</b>				
Marketing, selling and administration services - parent	\$ 658	\$ 638	\$ 1,954	\$ 1,912
Marketing, selling and administration services - affiliate	261	360	860	5,130
	<b>\$ 919</b>	\$ 998	<b>\$ 2,814</b>	\$ 7,042

Balances outstanding with related parties are due within 60 days, are to be settled in cash and are unsecured.

During the nine month period ended March 31, 2017, Corby sold casks to its parent company for net proceeds of \$60. No casks were sold during the three month period ended March 31, 2017. (During the three and nine month periods ended March 31, 2016 - \$1 and \$12, respectively).

During the nine-month period ended March 31, 2017, Corby entered into a transaction with its parent whereby Corby exchanged certain vintages and varieties of bulk whisky inventory with a fair value of \$383 for differing vintages and varieties of bulk whisky with an equivalent fair value in an effort to balance each companies' future inventory requirements. The exchange was not a culmination of the earnings process and as such did not impact Corby's net earnings nor its financial position.

### **Deposits in cash management pools**

Corby participates in a cash pooling arrangement under the Mirror Netting Service Agreement together with PR's other Canadian affiliates, the terms of which are administered by Citibank N.A.. The Mirror Netting Services Agreement acts to aggregate each participant's net cash balance for the purposes of having a centralized cash management function for all of PR's Canadian affiliates, including Corby.

As a result of Corby's participation in this agreement, Corby's credit risk associated with its deposits in cash management pools is contingent upon PR's credit rating. PR's credit rating as at May 10, 2017, as published by Standard & Poor's and Moody's, was BBB- and Baa2, respectively. PR compensates Corby for the benefit it receives from having the Company participate in the Mirror Netting Services Agreement by paying interest to Corby based upon the 30-day CDOR rate plus 0.40%. During the three and nine month periods ending March 31, 2017, Corby earned interest income of \$230 and \$723 from PR (2016 – \$269 and \$860), respectively. Corby has the right to terminate its participation in the Mirror Netting Services Agreement at any time, subject to five days' written notice.

## 16. SEGMENT INFORMATION

Corby has two reportable segments: Case Goods and Commissions. Corby's Case Goods segment derives its revenue from the production and distribution of its owned beverage alcohol brands. Corby's portfolio of owned-brands includes some of the most renowned and respected brands in Canada, such as J. P. Wiser's Canadian whisky, Lamb's rum, Polar Ice vodka, and McGuinness liqueurs. On September 30, 2016, Corby acquired Ungava Premium Canadian gin, Chic Choc Spiced rum, and a range of maple-based liqueur products.

Corby's Commissions segment earns commission income from the representation of non-owned beverage alcohol brands in Canada. Corby represents leading international brands such as ABSOLUT vodka, Chivas Regal, The Glenlivet and Ballantine's scotches, Jameson Irish whiskey, Beefeater gin, Malibu rum, Kahlúa liqueur, Mumm champagne, and Jacob's Creek and Wyndham Estate wines.

The Commissions segment's financial results are fully reported as "Commissions" in Note 9 of the interim condensed consolidated financial statements. Therefore, a table detailing operational results by segment has not been provided as no additional meaningful information would result.

THIS PAGE INTENTIONALLY LEFT BLANK

## OFFICES

### Executive Office

225 King Street West  
Suite 1100  
Toronto, Ontario  
M5V 3M2  
Tel: 416.479.2400

### Registered Office

225 King Street West  
Suite 1100  
Toronto, Ontario  
M5V 3M2  
Tel: 416.479.2400

### Distillery

2072 Riverside Drive East  
Windsor, Ontario  
N8Y 4S5  
Tel: 519.254.5171

Ungava Spirits Co. Ltd.  
291, rue Miner  
Cowansville, QC  
J2K 3Y6  
Tel: 450.263.5835

### Sales Offices

225 King Street West  
Suite 1100  
Toronto, Ontario  
M5V 3M2  
Tel: 416.479.2400

84 Chain Lake Drive  
Suite 405,  
Halifax, Nova Scotia  
B3S 1A2  
Tel: 902.445.0705

4858 Levy Street  
Ville Saint-Laurent, Quebec  
H4R 2P1  
Tel: 514.856.4320

2816-11th Street NE  
Westview Building, Suite  
200  
Calgary, Alberta  
T2E 7S7  
Tel: 403.463.3687

395 Park Street  
Unit 14  
Regina, Saskatchewan  
S4N 5B2  
Tel: 306.201.9746

13353 Commerce Parkway  
Unit 2168  
Richmond, British Columbia  
V6V 3A1  
Tel: 778.296.4500

## FOR MORE INFORMATION

### Corby Spirit and Wine Limited

R. Patrick O'Driscoll  
President and Chief Executive Officer

Antonio Sanchez  
Vice-President and Chief Financial Officer

Tel: 416.479.2400  
[www.corby.ca](http://www.corby.ca)

Affiliated with  Pernod Ricard